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FOR NLEE, RTOLOUI, LLAMONICA

E.O. 12958: N/A

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SUBJECT: DOMINICAN AUTHORITIES REQUEST USG BRIDGE LOAN FOR
ELECTRICITY SECTOR

1. Following is the unofficial Embassy translation of the text of a letter from the Dominican authorities to Treasury Under Secretary Taylor dated December 5, requested a bridge loan of USDOLS 60 million for the energy sector. Copy was faxed to Treasury on December 5; original follows by pouch.

(begin text of unofficial translation)

Technical Secretariat of the Presidency

No. 1832 December 5, 2003

Mr
John B Taylor
Under Secretary for International Affairs
Treasury Department
Washington DC

Dear Mr. Taylor:

During your recent visit to our country, we had the opportunity to indicate to you the delicate liquidity situation we face in the electricity sector and the possibility that exists that it could produce a true crisis in the generation of electricity, if the recourses we await from the multi-lateral organizations aren,t disbursed in an opportune manner.

As you had the opportunity to learn, the difficult electrical situation that our country endures is attributable to two fundamental problems: first, the accumulation of various decades of inefficiency in the sector, whose principal component has been the signing of onerous generating contracts with private companies. These contracts made the electrical energy produced in the country among the most expensive of the continent. We faced this problem by renegotiating all of the generating contracts that the country had with the private companies, and we are only waiting for the disbursement of the \$151 million form the World Bank, which would be used exclusively to cancel the said contracts through payment of stranded costs and as such enable the price for the sale of energy to be based on the spot market, as established in our Electricity Law.

The second adverse factor is the impact that the high international petroleum prices and the strong devaluation of the currency (125 percent in the past 16 months) have had on the high cost of energy production. We have not been able to entirely transfer these higher production costs to the consumers, especially not to those with the lowest levels of income. The social effect of doing so would be devastating. We should remember, that from September 2002 to December 2003, there has been a 96 percent increase in the electricity tariff. Besides, the Government has established a constant incremental increase of four percent monthly until the tariff reaches the market level.

Meanwhile, and to help sustain the system, the Government maintains a subsidy equivalent to 0.8 percent of GDP, which is covered by resources from the national budget. Nevertheless, this effort has not been sufficient, and there has accumulated a debt with the generators of around \$200 million this year, which has caused them to be without liquidity and without credit facilities to maintain their plants in operation.

Calculations done taking a constant price of no. 6 fuel oil of \$26 per barrel and an exchange rate of 40 pesos per dollar show the following shortfall between the total amount billed, including the Government,s subsidization and the cost of production of the energy service to the user. The values are expressed in millions of United States dollars.

	Total Cost		Total Income		Shortfall
December 03	75.0		57.3		17.7
January 04		76.3		57.2	19.1
February 04	78.3		57.2		21.1
March 04		80.4		57.2	23.2

April 04	80.5	57.2	23.3
May 04	80.6	57.2	23.4
June 04	80.7	57.2	23.5

Finally, we inform you that the stocks of fuel oil will run out around December 20 and coal supplies around December 10. Both combustibles generate more than 60 percent of the country's electricity production. Similarly, liquid natural gas (20 percent of production) will run out around January 10 of next year.

As you will be able to appreciate, it is urgent for us to receive a bridge loan of around \$60 million dollars before the disbursements of the World Bank (Structural Adjustment Loan - \$80 million) and the Inter-American Development Bank (Emergency Loan - \$200 million), which we estimate will be available around the month of February, for they require not only the approval of the IMF, but also the approval by the National Congress. Part of the resources of both loans, especially the first of them, would be utilized to cover the deficit that we have in the electrical sector.

Sincerely,

(signed)

Rafael Calderon M.
Secretary of State for Finance

Carlos Despradel
Technical Secretary of

SIPDIS
the Presidency
HERTELL